



Committee report

Committee **AUDIT COMMITTEE**
 Date **19 FEBRUARY 2015**
 Title **INTERNAL AUDIT PLAN 2015/16**
 Report of/to **BUSINESS IMPROVEMENT MANAGER**

EXECUTIVE SUMMARY

1. This report seeks approval of the council's internal audit plan for 2015-16. The committee has a key role in overseeing the work of the internal auditors and must have a major part in deciding what the auditors should cover.

BACKGROUND

2. The committee's terms of reference include the oversight of the internal audit function, which includes approving the annual internal audit plan. The internal audit function is outsourced (to PricewaterhouseCoopers LLP) but the council retains the statutory responsibility for ensuring that there is an adequate and effective system of internal audit in place. One of the ways in which that responsibility is exercised is to ensure that the work of auditors, as set out in the plan for the year ahead :
 - is based on the perceived risks facing the council;
 - addresses any emerging issues;
 - directs audit resource to meet those risks;
 - takes account of the finite resources available to the audit function.
3. The committee has been involved at two points so far (at its away day in September and also at its meeting on 11 December). The following table sets out the activities for developing and agreeing the plan:

Time-frame	Activity
October- November	Refreshing the understanding of the council's operations/ structure. Initial risk scoring of auditable units. Meetings with heads of service/strategic managers with a list of potential reviews to be considered for inclusion
December 11 Audit Committee	Consultation with Audit Committee – the committee is updated with progress so far and has further opportunity to influence the plan's content
January 2015	Consultation with senior management confirm the reviews to be undertaken and their provisional scheduling
January 2015	Presentation to Corporate Management Team: senior managers have the opportunity to collectively consider the plan and to recommend it to the Leader and the Audit Committee

Time-frame	Activity
February 19 2015 Audit Committee	Presentation to Audit Committee - the draft 2015/16 Internal Audit Plan will be presented to Audit Committee for approval

4. As stated before, the committee can add value to the planning process by:
- seeking assurance that the plan is developed in a logical way (i.e. that it is based on an assessment and understanding of risk);
 - seeking assurance that the plan is developed in consultation with stakeholders (senior managers and relevant members);
 - considering whether it is linked to the council's objectives;
 - checking that the plan appears to cover the most significant risks (by reference to members' own analysis and experience and the issues which have arisen in previous audit reviews);
 - ensuring that, with limited resources, the plan is a proportionate response to dealing with risk, and that any shortfall in resource is managed accordingly (i.e. by appropriate rationing and ensuring that the most significant risks are covered);
 - ensuring that where they have concerns about the control regime that have been highlighted by their own perception of risk, that the plan includes those issues to be audited.
5. The appendix sets out the draft internal audit plan for the committee to consider.

STRATEGIC CONTEXT

6. The internal audit function plays an important role in providing assurance that the council's governance (and in particular financial governance) is robust. It is therefore important that the plan is given appropriate attention, is designed to counter risk, has sufficient coverage and deals with those issues which are the most important. The plan's development uses the council's strategic objectives as a reference point for deciding which areas are crucial to the council's success.

CONSULTATION

7. Consultation about the plan and its content has taken place with heads of service and strategic managers, who are able to identify any emerging issues that will impact on their own service or issues which are giving cause for concern.
8. The council's external auditor has also been consulted over the content and frequency of audit reviews. Those views have been incorporated into the draft plan.
9. The Audit Committee has highlighted a number of issues that it wishes to see covered in the plan which have now been included in the Plan's development.
10. The council's Corporate Management Team (CMT) has reviewed the draft plan and proposed changes which reflect the need for the audit plan to focus on some of the essential activities of the council to ensure that basic internal controls are operating effectively.

- *End to End Business Processes Review:* as process elements become fragmented, with some elements potentially exercised by staff who are not directly employed by the Council, existing controls (e.g. to ensure approval, accuracy, completeness and timeliness of payments) may become less effective or cease to be relevant. If equivalent controls are not put in place, potentially undetected processing errors will become more likely.
- *Income protection:* The council needs to ensure that it achieves the income it expects as it supports the spending plans the council has. This review will review a sample of the most significant income streams to ensure that they are being maximised.
- *Fraud and corruption:* The reduction in the council's capacity at all levels will inevitably mean that controls (such as segregation of duties and management review) will weaken thus posing a risk of increased fraud. This review will therefore examine the council's arrangements for managing the risk of fraud.

FINANCIAL / BUDGET IMPLICATIONS

11. The audit plan is the basis for the contract with the internal audit provider, with a current cost of £223,000 per annum. Any proposal to increase (or indeed reduce) the plan would have a directly proportionate effect on the cost of the contract. The Council's draft budget strategy proposes that savings from the cost of the audit function are needed which would be consistent with a down-sizing of the council's activities and an increased focus on the essential controls to ensure that they remain effective in a period of ongoing change.

LEGAL IMPLICATIONS

12. The Accounts and Audit (England) Regulations 2011, require that local authorities undertake an adequate and effective internal audit of their accounts and internal control. The annual plan provides evidence that the work of the auditors is well managed and therefore meeting our statutory obligations in this regard.

EQUALITY AND DIVERSITY

13. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

OPTIONS

14. The options for the committee are:

Option (a) Approve the Audit Plan as set out in the appendix.

Option (b) Amend the Audit Plan as set out in the appendix.

RISK MANAGEMENT

15. The key risk associated with the plan is that it fails to adequately address the most significant risks facing the council. The consultation (in particular with senior

management) is designed to manage that risk. The committee's involvement at an early stage of the plan's development also helps to ensure that the plan is relevant to the council's needs.

RECOMMENDATION

16. Option (a) Approve the Audit Plan as set out in the appendix.

APPENDICES ATTACHED

17. [Appendix](#) – The Internal Audit Plan 2015/16

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